

**STATE OF ALASKA  
DEPARTMENT OF REVENUE  
TREASURY DIVISION**

**INVESTED ASSETS UNDER THE INVESTMENT AUTHORITY OF THE COMMISSIONER OF  
REVENUE**

**JUNE 30, 2020**

**(With Independent Auditors' Report Thereon)**

**STATE OF ALASKA  
DEPARTMENT OF REVENUE  
TREASURY DIVISION**

**INVESTED ASSETS UNDER THE  
INVESTMENT AUTHORITY OF THE  
COMMISSIONER OF REVENUE**

**Combined Schedules**

**June 30, 2020**

**Table of Contents**

	<u>Page</u>
Independent Auditors' Report.....	1
Combined Schedule of Invested Assets.....	3
Combined Schedule of Investment Income.....	4
Notes to Combined Schedules.....	5



KPMG LLP  
Suite 600  
701 West Eighth Avenue  
Anchorage, AK 99501

## **Independent Auditors' Report**

State of Alaska, Department of Revenue  
Treasury Division:

We have audited the total invested assets column in the accompanying combined schedule of invested assets and the total income (loss) column in the combined schedule of investment income for invested assets under the investment authority of the Commissioner of Revenue as of and for the year ended June 30, 2020, and the related notes to the schedules (collectively referred to as "the Schedules").

### ***Management's Responsibility for the Schedules***

Management is responsible for the preparation and fair presentation of the Schedules in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedules that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on the Schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Schedules. The procedures selected depend upon the auditors' judgment, including the assessment of the risks of material misstatement of the Schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the Schedules referred to above present fairly, in all material respects, the total invested assets and the total investment income for invested assets under the investment authority of the Commissioner of Revenue as of and for the year ended June 30, 2020, in accordance with U.S. generally accepted accounting principles.



***Emphasis of Matter***

We draw attention to Note 1 to the Schedules, which describes that the accompanying schedules represent only the activity of the funds outlined in Note 1 and were prepared to present the invested assets under the authority of the Commissioner of Revenue and related investment income, and not the complete financial activity of the funds or the State of Alaska as a whole. The complete financial activity of the funds is shown in the Comprehensive Annual Financial Report available from the Division of Finance in the Department of Administration.

*KPMG LLP*

Anchorage, Alaska  
September 15, 2020

STATE OF ALASKA  
DEPARTMENT OF REVENUE - TREASURY DIVISION  
INVESTED ASSETS UNDER THE INVESTMENT AUTHORITY OF THE COMMISSIONER OF REVENUE

COMBINED SCHEDULE OF INVESTED ASSETS  
June 30, 2020  
(Expressed in thousands)

	GENERAL FUND and GeFONSI	CONSTITUTIONAL BUDGET RESERVE FUND MAIN	PUBLIC SCHOOL TRUST FUND	INVESTMENT LOSS TRUST FUND	GENERAL OBLIGATION BOND FUND	INTERNATIONAL AIRPORTS CONSTRUCTION FUND	INTERNATIONAL AIRPORTS FUND	POWER COST EQUALIZATION ENDOWMENT FUND	RETIREE HEALTH INSURANCE FUND		MINE RECLAMATION FUND	TOTAL INVESTED ASSETS 6/30/2020
									MAJOR MEDICAL	LONG-TERM CARE		
<b>INVESTMENTS (at Fair Value) (Notes 4 and 5)</b>												
Short-term Fixed Income Pool	\$ 2,432,341	1,572,923	14	4,215	32,541	33,595	111,610	4	18,883	2,495	-	4,208,621
Short-term Treasury Fixed Income Pool	-	-	-	-	-	-	-	-	-	-	-	-
Non-interest Bearing Deposits	34,070	-	-	-	-	-	-	-	-	-	-	34,070
Intermediate-term Fixed Income Pool	538,418	-	-	-	-	-	-	-	-	-	-	538,418
Broad Market Fixed Income Pool	195,381	409,477	216,400	-	-	-	29,795	386,618	-	428,590	373	1,666,634
Domestic Equity Pool	180,946	-	281,927	-	-	-	2,922	443,291	-	120,136	487	1,029,709
International Equity Pools	125,255	-	189,769	-	-	-	2,937	248,244	-	77,454	327	643,986
Real Estate Investment Trust Pool	-	-	-	-	-	-	-	-	-	-	-	-
Tobacco Revenue Fixed Income	10,820	-	-	-	-	-	-	-	-	-	-	10,820
<b>Total Investments</b>	<b>3,517,231</b>	<b>1,982,400</b>	<b>688,110</b>	<b>4,215</b>	<b>32,541</b>	<b>33,595</b>	<b>147,264</b>	<b>1,078,157</b>	<b>18,883</b>	<b>628,675</b>	<b>1,187</b>	<b>8,132,258</b>
<b>Receivables (Payables)</b>												
Income Receivable (Payable)	1,349	826	-	2	18	18	57	-	10	-	-	2,280
Total Receivables (Payables)	1,349	826	-	2	18	18	57	-	10	-	-	2,280
<b>Net Invested Assets</b>	<b>\$ 3,518,580</b>	<b>1,983,226</b>	<b>688,110</b>	<b>4,217</b>	<b>32,559</b>	<b>33,613</b>	<b>147,321</b>	<b>1,078,157</b>	<b>18,893</b>	<b>628,675</b>	<b>1,187</b>	<b>8,134,538</b>

STATE OF ALASKA  
DEPARTMENT OF REVENUE - TREASURY DIVISION  
INVESTED ASSETS UNDER THE INVESTMENT AUTHORITY OF THE COMMISSIONER OF REVENUE

COMBINED SCHEDULE OF INVESTMENT INCOME

For the year ended June 30, 2020

(Expressed in thousands)

	GENERAL FUND and GeFONSI	CONSTITUTIONAL BUDGET RESERVE FUND MAIN	PUBLIC SCHOOL TRUST FUND	INVESTMENT LOSS TRUST FUND	GENERAL OBLIGATION BOND FUND	INTERNATIONAL AIRPORTS CONSTRUCTION FUND	INTERNATIONAL AIRPORTS FUND	POWER COST EQUALIZATION ENDOWMENT FUND	RETIREE HEALTH INSURANCE FUND		MINE RECLAMATION FUND	TOTAL INCOME (LOSS) YEAR ENDED 6/30/2020
									MAJOR MEDICAL	LONG-TERM CARE		
<b>Investment Income (Loss)</b>												
Short-term Fixed Income Pool	\$ 34,045	26,551	13	73	1,167	613	1,908	18	328	31	-	64,747
Short-term Treasury Fixed Income Pool	1,579	-	-	-	-	-	-	-	-	-	-	1,579
Intermediate-term Fixed Income Pool	26,934	-	-	-	-	-	-	-	-	-	-	26,934
Broad Market Fixed Income Pool	20,127	39,244	19,214	-	-	-	2,799	30,149	-	36,006	31	147,570
Domestic Equity Pool	14,369	516	18,768	-	-	-	162	30,131	-	9,527	34	73,507
International Equity Pool	(5,205)	(3,785)	(8,523)	-	-	-	(94)	(12,841)	-	(2,571)	(13)	(33,032)
Real Estate Investment Trust Pool	266	281	535	-	-	-	20	846	-	266	1	2,215
Tobacco Revenue Fixed Income	181	-	-	-	-	-	-	-	-	-	-	181
<b>Total Investment Income</b>	<b>92,296</b>	<b>62,807</b>	<b>30,007</b>	<b>73</b>	<b>1,167</b>	<b>613</b>	<b>4,795</b>	<b>48,303</b>	<b>328</b>	<b>43,259</b>	<b>53</b>	<b>283,701</b>
<b>Transfer from (to) Other Funds</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Investment Income</b>	<b>\$ 92,296</b>	<b>62,807</b>	<b>30,007</b>	<b>73</b>	<b>1,167</b>	<b>613</b>	<b>4,795</b>	<b>48,303</b>	<b>328</b>	<b>43,259</b>	<b>53</b>	<b>283,701</b>

# INVESTED ASSETS UNDER THE INVESTMENT AUTHORITY OF THE COMMISSIONER OF REVENUE

## Notes to Combined Schedules

June 30, 2020

### (1) THE ACCOUNTING ENTITY

The accompanying combined schedules present the financial position and changes therein, as of and for the year ended June 30, 2020, for the invested assets of funds under the investment authority of the Commissioner of Revenue (Commissioner). The Commissioner is responsible for all deposits and investments of the State of Alaska (State) except where the Legislature has delegated that responsibility to other individuals or boards. As the fiduciary, the Commissioner has the statutory authority to invest the assets under the prudent investor rule. Alaska Statutes 37.10.070 and 37.10.071 provide that investments shall be made with the judgment and care under circumstances then prevailing that an institutional investor of ordinary professional prudence, discretion, and intelligence exercises in managing large investment portfolios.

These schedules represent only the investment activity of the funds and not the complete financial activity of the funds or the State as a whole. The complete financial activity of the funds is shown in the Comprehensive Annual Financial Report available from the Division of Finance in the Department of Administration.

The Department of Revenue, Treasury Division (Treasury) has created a pooled environment by which it manages the investments for which the Commissioner has fiduciary responsibility. Actual investing is performed by investment officers in Treasury or by contracted external investment managers. Specifically, the Tobacco Revenue Fixed Income, Domestic Equity and the International Equity Pools are managed externally. Treasury manages the Short-term Fixed Income Pool, Short-term Treasury Fixed Income Pool, Noninterest Bearing Deposits, Intermediate-term Fixed Income Pool, and Broad Market Fixed Income Pool in addition to acting as oversight manager for all externally managed investments.

For detailed information on the funds under the fiduciary authority of the Commissioner of Revenue, please see the Treasury's website at: <http://treasury.dor.alaska.gov/Investments.aspx>

### (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of Accounting**

The combined schedules are prepared using the accrual basis of accounting for investment income (loss). Assets are reported at fair value. Investment purchases and sales are recorded on a trade-date basis.

#### **Valuation**

Fixed income securities are valued each business day using prices obtained from a pricing service when such prices are available; otherwise, such securities are valued at the most current sale price or based on a valuation provided by investment managers.

Noninterest Bearing Deposits are reported at cost, which approximates fair value.

Domestic and international equity securities are valued each business day using prices obtained from a pricing service or prices quoted by one or more independent brokers. Securities expressed in terms of foreign currencies are translated into U.S. dollars at the prevailing exchange rates. Forward currency contracts are valued at the mid-point of representative quoted bid and ask prices.

### (3) NON-INTEREST BEARING DEPOSITS

At June 30, 2020, non-interest bearing deposits totaled \$34 million, comprised of various State agency cash held pending redemption of State warrants and compensating balances.

**INVESTED ASSETS UNDER THE INVESTMENT AUTHORITY OF THE  
COMMISSIONER OF REVENUE**  
Notes to Combined Schedules  
June 30, 2020

**(4) FAIR VALUE MEASUREMENTS**

Various inputs are used in valuing the investments held by the Commissioner. Generally accepted accounting principles (GAAP) establishes a hierarchy of inputs used to value investments emphasizing observable inputs and minimizing unobservable inputs. These inputs are summarized as follows:

Level 1 – Quoted prices for identical assets in an active market

Level 2 – Inputs, other than quoted prices, that are observable for the asset, either directly or indirectly or quoted in less active markets

Level 3 – Unobservable inputs. Unobservable inputs should only be used to the extent that observable inputs are not available for a particular asset

The Commissioner categorizes fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Commissioner has the following recurring fair value measurements as of June 30, 2020 (in thousands):

<b>Investment by fair value level</b>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Cash Equivalents</b>				
Certificate of Deposit	\$ 21,511	-	21,512	-
Deposits	123,367	123,367	-	-
Money Market	10,816	-	10,816	-
Repurchase Agreement	929,300	929,300	-	-
Total Cash Equivalents	1,084,994	1,052,667	32,328	-
<b>Debt Securities</b>				
Corporate Bonds	762,465	-	762,465	-
Mortgage Backed	461,848	-	461,848	-
Municipal Bonds	18,536	-	18,536	-
Other Asset Backed	1,037,717	-	1,037,717	-
U.S. Government Agency	105,584	-	105,584	-
U.S. Treasury Bills, Notes, and Bonds	3,142,241	-	3,142,240	-
Yankee Corporate Bonds	391,781	-	391,781	-
Yankee Government Bonds	123,917	-	123,917	-
Total Debt Securities	6,044,089	-	6,044,088	-
<b>Equity Securities</b>				
Commingled Equity Funds	1,799,964	1,799,964	-	-
Total Equity Securities	1,799,964	1,799,964	-	-
Total investments by fair value level	8,929,047	2,852,631	6,076,416	-
Total investments measured at fair value	8,929,047			
Other Fiduciary Responsibility	(544,716)			
Net Receivables / (Payables) from Investment Activity	(252,073)			
<b>Total Commissioner Invested Assets</b>	<b>\$ 8,132,258</b>			

Securities classified as level 1 are valued using prices quoted in active markets for those securities. Securities classified as level 2 are valued using matrix pricing. Pricing is obtained from various sources.

**INVESTED ASSETS UNDER THE INVESTMENT AUTHORITY OF THE  
COMMISSIONER OF REVENUE**

**Notes to Combined Schedules**

**June 30, 2020**

**(5) DEPOSIT AND INVESTMENT RISK**

**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. At June 30, 2020 all fixed income securities met the Treasury's compliance metrics related to effective duration.

**Short-term Fixed Income Pool**

As a means of limiting its exposure to fair value losses arising from increasing interest rates, Treasury's investment policy limits individual fixed rate securities to 14 months to maturity or 14 months expected average life upon purchase. Floating rate securities are limited to 3 years to maturity or 3 years expected average life upon purchase. These constraints apply to trade date, except for securities bought at new issue, for which settlement date applies.

**Short-term Treasury Fixed Income Pool**

Treasury's investment policy limits individual fixed rate securities to six months to maturity. These constraints apply to trade date, except for securities bought at new issue, for which settlement date applies. At June 30, 2020, this pool held no securities or cash.

**Intermediate and Broad Market Fixed Income Pools**

Duration is a measure of interest rate risk. It measures a security's sensitivity to a 100-basis point change in interest rates. The duration of a pool is the average fair value weighted duration of each security in the pool taking into account all related cash flows. Treasury uses industry-standard analytical software developed by The Yield Book Inc. to calculate effective duration. The software considers various possible future interest rates, historical and estimated prepayment rates, call options and other variable cash flows for purposes of the effective duration calculation.

Through its investment policy, Treasury manages its exposure to fair value losses arising from increasing interest rates by limiting the effective duration of its other fixed income pool portfolios to the following:

Intermediate-term Fixed Income Pool -  $\pm 20\%$  of the Barclays 1-3 Year Government Bond Index.

Broad Market Fixed Income Pool -  $\pm 20\%$  of the Barclays Capital U.S. Aggregate Bond Index.

**INVESTED ASSETS UNDER THE INVESTMENT AUTHORITY OF THE  
COMMISSIONER OF REVENUE**  
Notes to Combined Schedules  
June 30, 2020

At June 30, 2020, the Commissioner’s effective duration by investment type was as follows:

	<b>Effective Duration</b> (in years)
Certificate of Deposit	0.15
Corporate Bonds	6.20
Mortgage Backed	2.17
Municipal Bonds	14.25
Other Asset Backed	0.30
U.S. Government Agency	1.70
U.S. Treasury Bills, Notes, and Bonds	1.55
Yankee Corporate Bonds	1.84
Yankee Government Bonds	1.53
	<b>1.73</b>

**Credit Risk**

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations.

Short-term Fixed Income Pool investments are limited to instruments with a long-term credit rating of at least A3 or equivalent and instruments with a short-term credit rating of at least P-1 or equivalent. Commercial paper must be rated at least P-1 by Moody’s and A-1 by Standard and Poor’s. Asset-backed and non-agency mortgage securities must be rated A3 or equivalent. The A3 rating is defined as the median rating of the following three rating agencies: Standard & Poor’s Corporation, Moody’s and Fitch. Asset-backed and non-agency mortgage securities may be purchased if only rated by one of these agencies if they are rated AAA.

Short-term Treasury Pool investments are limited to U.S. Treasury obligations or other U.S. Government securities issued in full faith or guaranteed by agencies and instrumentalities of the U.S. Government, obligations of foreign governments, sovereign states, supranational entities, and their instrumentalities denominated in U.S. dollars, and the State’s internally-managed Short-Term Fixed Income Pool.

Intermediate-term and Broad Market Fixed Income Pool investments are limited to securities with a long-term credit rating of at least Baa3 or equivalent and securities with a short-term credit rating of at least P-1 or equivalent. The Broad Market Fixed Income Pool can hold within its portfolio up to 5% high-yield bonds. Asset-backed and non-agency mortgage securities must be rated investment grade. The investment grade rating is defined as the median rating of the following three rating agencies: Standard & Poor’s Corporation, Moody’s and Fitch. Asset-backed and non-agency mortgage securities may be purchased if only rated by one of these agencies if they are rated AAA.

The bond indentures governing the investment of tobacco revenue related bond proceeds limit the investment in commercial paper to only those securities rated A-1 or equivalent. Tobacco Revenue Fixed Income Securities consisted of commercial paper rated A-1.

**INVESTED ASSETS UNDER THE INVESTMENT AUTHORITY OF THE  
COMMISSIONER OF REVENUE  
Notes to Combined Schedules  
June 30, 2020**

At June 30, 2020, the State’s internally managed pools consisted of investments with credit quality ratings issued by nationally recognized statistical rating organizations as follows (using Standard and Poor’s Corporation rating scale, in thousands):

	<u>Short-Term Fixed Income</u>	<u>Intermediate Term Fixed Income Pool</u>	<u>Broad Market Fixed Income Pool</u>
AAA	\$ 1,896,301	5,113	54,259
AA	164,067	11,198	64,155
A	155,085	64,533	346,050
BBB	19,188	22,978	223,831
BB	-	-	2,988
U.S. Government Agency	88,021	-	17,563
U.S. Treasury Bills, Notes, and Bonds	2,514,103	46,156	581,980
Not Rated	199,697	31,382	486,250
No Credit Risk	(522,145)	357,058	2,075
Other Fiduciary	(305,696)	-	(112,517)
	<u>\$ 4,208,621</u>	<u>538,418</u>	<u>1,666,634</u>

**Custodial Credit Risk – Deposits**

Custodial credit risk is the risk that deposits may not be returned in the event of a bank failure. Treasury’s investment policy requires the State’s depository banks to collateralize State deposits to the extent they exceed insurance coverage provided by the Federal Deposit Insurance Corporation (The FDIC provides \$250,000 of coverage). In accordance with Treasury policy, they are required to retain collateral equal to 100% of uninsured deposits.

The bond indentures governing the investment of tobacco revenue related bond proceeds, do not establish policy with regard to custodial credit risk.

At June 30, 2020, the State had the following uncollateralized and uninsured deposits:

	<b>Amount</b> <b>(in thousands)</b>
International Equity Pool	\$ 46

**Concentration of Credit Risk**

Treasury’s policy with regard to concentration of credit risk is to prohibit the purchase of more than five percent of a pool’s holdings in corporate bonds backed by any one company or affiliated group. At June 30, 2020, no pool had exposure to any one issuer greater than 5% of total invested assets.

**INVESTED ASSETS UNDER THE INVESTMENT AUTHORITY OF THE  
COMMISSIONER OF REVENUE**

**Notes to Combined Schedules**

**June 30, 2020**

**Foreign Currency Risk**

The Commissioner of Revenue formally adopts asset allocation policies for each fund at the beginning of each fiscal year, which places policy limitations on the amount of international securities each fund is allowed to hold. The following policies were in place during fiscal year 2020 and invested assets included the following holdings at June 30, 2020, for the funds invested in the International Equity Pool:

<b>Fund Name</b>	<b>Policy</b>	<b>Actual</b>
AIA Revenue Fund	2% -2%/+5%	2.00%
Constitutional Budget Reserve Fund	2% -2%/+5%	0.00%
Education Endowment Fund	27% +/- 5%	27.60%
GeFonsi II	3% -3%/+5%	3.26%
Higher Education Fund	27% +/- 5%	27.59%
Illinois Creek Mine Reclamation Fund	27% +/- 5%	27.58%
Power Cost Equalization Endowment Fund	27% +/- 5%	23.02%
Public School Trust Fund	27% +/- 5%	27.58%
Retiree Health Insurance Fund, Long-Term Care	12% +/- 5%	12.32%

At June 30, 2020, the funds invested in the International Equity Pool had exposure to foreign currency risk as follows (in thousands):

	<b>Deposits</b>
Euro Currency	\$ 15
Swiss Franc	35
Subtotal	50
Other Fiduciary Responsibility	(4)
Total Commissioner Responsibility	\$ 46

**INVESTED ASSETS UNDER THE INVESTMENT AUTHORITY OF THE  
COMMISSIONER OF REVENUE**

**Notes to Combined Schedules**

**June 30, 2020**

**(6) FOREIGN EXCHANGE, FOREIGN EXCHANGE CONTRACTS, OFF-BALANCE SHEET RISK,  
AND DERIVATIVE EXPOSURE**

The Commissioner is exposed to credit risk on investment derivative instruments that are in asset positions. The Commissioner has no policy of requiring collateral or other security to support derivative instruments subject to credit risk. Additionally, the Commissioner has no policy regarding entering into netting arrangements when it enters into derivative instrument transactions with a counterparty, nor does the Commissioner have a policy on contingencies. The International Equity Pool's investments include the following income from derivative investments at June 30, 2020:

<u>Investment Derivatives</u>	<u>Changes in Fair Value</u>		<u>Fair Value at June 30, 2020</u>		
	<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>	<u>Notional</u>
FX Forwards	Investment Income	\$(101,598)	Long Term Instruments	-	-

The International Equity Pool includes foreign currency forward contracts to buy and sell specified amounts of foreign currencies at specified rates on specified future. The counterparties to the foreign currency forward contracts consist of a diversified group of financial institutions. Credit risk exposure exists to the extent of nonperformance by these counterparties; however, the risk of default is considered to be remote. The market risk is limited to the difference between contractual rates and forward rates at the balance sheet date. At June 30, 2020, the International Equity Pool had no outstanding contracts.